

Fritz, Julie L.

Plaintiff

From: Roberts, Greta
Sent: Friday, August 21, 2009 2:19 PM
To: Kelley, Brady; Hartley, Carol
Cc: Goodwin, Ron L.
Subject: RE: SBS Revenue Sharing

Exhibit No. 121
Date: 10-19-12 nc
Esquire Deposition Solutions

Attachments: SBS Narrative 2009.doc; SBS Summary.rtf; SBS Summary.rtf; Accounting Summary Report_AL_June.htm; NIPR Revenue Share and Rental Allocation 2009.xls; NIPR revenue share to SBS for 2009.XLS; 06-2009.pdf; SBS Details Revenue Model 7-12-09.xls

I think these transactions are working as they are currently designed and that we are in compliance with the current contracts. There seems to be lots of checks and double checks of the numbers and separation of duties. The only item that I couldn't confirm before I sent you the email were the states that should be included in the "expired" transactions.

However, areas of concern would be the reporting and manual processes. The reports used by Donna and Mark are generated from a query and they notify NIPR of any changes. If they see any discrepancies in the reports such as a state missing or an transaction type missing when they receive the report they will notify them after the fact and get a revised report. This seems like a very manual process for someone to go through and there is room for human error.

Another area that doesn't sound like it is being looked at on a monthly basis is the volume analysis, transaction fees, etc. for SBS. It sounds like this only being done at a detailed level during the budget process.

From: Kelley, Brady
Sent: Friday, August 21, 2009 12:58 PM
To: Roberts, Greta; Hartley, Carol
Cc: Goodwin, Ron L.
Subject: RE: SBS Revenue Sharing

Thanks for all of the information, I will take a look this weekend. Give me the quick summary - are things working as designed and in compliance with the terms and controlled/validated as needed? Thanks again!

From: Roberts, Greta
Sent: Friday, August 21, 2009 12:44 PM
To: Kelley, Brady; Hartley, Carol
Cc: Goodwin, Ron L.
Subject: SBS Revenue Sharing

1. What NIPR reports are used to capture NIPR transactions processed for SBS states and for which NIPR remits a royalty to Aithent? How do we know these reports are accurate and who validates?

Dee Skiver sends two sets of reports monthly based on a query ran from the NIPR database. One set is sent to Donna Powers which is a summary report of all SBS state transactions and one set is sent to Mark Korb which is a summary and detailed report of all transactions that are eligible to be shared with Aithent. The first section of Donna's report includes NIPR transactions for which royalty revenue is reported to Aithent; those are shared with SBS at 15%. That report also includes the Aithent revenue share. Donna verifies this number against the report that Mark receives to make sure it matches. If there are any discrepancies they are identified and corrected. The second section of this report includes any ineligible or expired transactions which are not part of the Aithent royalty; those are shared with SBS at 30%. These amounts are analyzed against past transaction patterns to determine any anomalies, which are reviewed with Dee Skiver and corrected if necessary. Mark also does a review of his report monthly to ensure every state and transaction type is being captured according to the Aithent contract. If he detects any discrepancies Dee Skiver is notified to update the query and the reports are updated.

Attached is a copy of the their internal controls document and samples of the both reports.



SBS Narrative
2009.doc (68 KB)...



SBS Summary.rtf
(24 KB)



SBS Summary.rtf
(24 KB)

2. What SBS reports are used to capture SBS Direct transactions (not processed through NIPR) for which NAIC remits a royalty to Aithent? How do we know these reports are accurate and who validates?

SBS pulls a report from their system on a daily basis for each state and matches this to Verisign to look for any variances. Any variances found are dealt with immediately. In addition, the Finance department reconciles the SBS reports by state, the monthly Verisign reports and the bank statements. Any reconciling items are discussed with SBS to determine the necessary action.

Attached is a sample SBS State report for June.



Accounting
Summary Report_AL_

3. How the entry to allocate revenues between NIPR, NAIC and Aithent is prepared and how are we certain it complies with the agreements above?

The amount due to Aithent is prepared by Mark Korb and is sent via wire. The amount due from SBS is charged directly to their expense account. The amount due from NIPR (50%) goes to a contra revenue account (39269-83). The entry to allocate revenues is done via journal entry and comes from a variety of sources. Kelli Lambert prepares this journal entry. NIPR provides her with the number of transactions per month by category and from there she is able to calculate the dollar amount of the SPLR usage fee. She also pulls the total revenue year-to-date directly from their general ledger. The spreadsheet then calculates what the total current month revenue sharing amount should be. Donna Power provides her with the exact figures that the NAIC should receive from NIPR for both the SBS states (15%) and the excluded transactions (30%). All the remaining NIPR transactions are calculated at 30% for NAIC's share. The administrative fee is also part of the total current month revenue sharing amount that is calculated and included in the journal entry.

Attached is a copy of the spreadsheet that is prepared for the journal entry each month. In addition, I have also provided a copy of the numbers that Donna Powers send to Kelli each month which tie back to the reports above for June.



NIPR Revenue
Share and Rental ...



NIPR revenue
...share to SBS for ...

I have reviewed the calculations in this entry and it appears that we are complying with the agreements.

4. How, from the time a transaction is submitted to the time we book the entry to the general ledger, are we validating the accuracy of the system's reports and resulting revenue allocations?

As mentioned previously on the SBS side they are looking at these transactions daily. For NIPR, the transactions are not reconciled until month end. In addition to the other steps outlined above Kelli Lambert takes the attached report provided to her by NIPR which gives her total NIPR revenues and

reconciles them back to the Peoplesoft system.



06-2009.pdf (83 KB)

5. What internal reviews or audits are performed on monthly SBS transaction fees (e.g. average price per transaction, volume analysis, etc.)?

Donna Powers reviews the SBS transaction fees throughout the budgeting process. From this she can tell if a state has not been charged correctly per transaction or if their volumes are down. In addition, any large variances are investigated prior to close by the Finance team on a monthly basis and must be explained in their monthly variance reports.

Please let me know if I have missed something and I will research it as soon as I return on the 1st or I may already know the answer and just haven't covered it here.

Thanks,

Greta L. Roberts

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From: Kelley, Brady
Sent: Thursday, July 16, 2009 4:57 PM
To: Roberts, Greta; Goodwin, Ron L.
Cc: Hartley, Carol; Kelley, Brady
Subject: RE: SBS Revenue Sharing

Here is a copy of the related agreements between (1) the NAIC and Aithent and (2) the NAIC and NIPR, regarding the allocation and sharing of revenues. Teresa and Carol will also be good resources for any specific questions you have about the reports used and entries made to record this revenue share each month.

Here is what I would like to confirm and document:

1. What NIPR reports are used to capture NIPR transactions processed for SBS states and for which NIPR remits a royalty to Aithent?
2. How do we know these reports are accurate and who validates?
3. What SBS reports are used to capture SBS Direct transactions (not processed through NIPR) for which NAIC remits a royalty to Aithent?
4. How do we know these reports are accurate and who validates?
5. How is the entry to allocate revenues between NIPR, NAIC and Aithent prepared and how are we certain it complies with the agreements above?
6. How, from the time a transaction is submitted to the time we book the entry to the General Ledger, are we validating the accuracy of the systems reports and resulting revenue allocations?
7. What internal reviews or audits are performed on monthly SBS transaction fees (e.g., average price per transaction, volume analysis, etc.)?

Please note that my questions are not meant to suggest concerns with these transactions, just a double-check and internal audit to ensure accuracy in a very complex transaction.

Regarding the calculation of SBS revenue projections for 2010, the attached file may be helpful to you in understanding how we estimate/budget for SBS transaction revenues (and further illustrate the manner in which revenues are allocated between NAIC, Aithent and NIPR).



SBS Details
evenue Model 7-12.

Also, the attached file includes a summary of how we calculate and budget for the NAIC's 30% license fee in Department 1; just for reference as you dig in, but also for you to review and validate.

Here's a quick summary of how this should work:

NIPR Transaction (Non SBS State): 70% of gross revenue to NIPR; 30% share to NAIC as license fee (Department 1)

NIPR Transaction (SBS State): 50% of gross revenue to Aithent; 35% to NIPR; 15% to NAIC (Department 95)

NIPR Transaction (SBS State for Transaction "excluded" from Aithent share per agreement): 70% of gross revenue to Aithent; 30% to NAIC (Department 95)

SBS Direct Transaction (Not through NIPR): 50% of gross revenue to Aithent; 50% to NAIC (Department 95)

SBS Direct Transaction (Not through NIPR and "excluded" from Aithent share per agreement): 100% of gross revenue to NAIC (Department 95)

You may also want to get a copy of the internal controls documentation for SBS and NIPR to review as part of this project.

Thanks for digging in! Please take a look to get started and let me know what questions you have to get this accomplished. Thanks!

From: Roberts, Greta
Sent: Thursday, July 16, 2009 4:28 PM
To: Kelley, Brady
Subject: SBS Revenue Sharing

Brady,

Where can I retrieve a copy of the contract you were mentioning the other day so I can review the language?

Greta L. Roberts

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